Vol. VII

TRANSCRIPT OF RECORD

(Pages 1099 to 1182)

Supreme Court of the United States

OCTOBER TERM, 1946

No. 755

IRA J. McCULLOUGH, PETITIONER,

vs.

KAMMERER CORPORATION AND BAASH-ROSS TOOL COMPANY

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE NINTH CIRCUIT

PETITION FOR CERTIORARI FILED DECEMBER 6 1946.

CERTIORARI GRANTED FEBRUARY 3, 1947.

No. 9957

IN THE

United States Circuit Court of Appeals
For the Ninth Circuit

IRA J. McCULLOUGH,

Appellant,

vs.

KAMMERER CORPORATION, a corporation, and BAASH-ROSS TOOL COMPANY, a corporation,

Appellees.

AND

IRA J. McCULLOUGH,

Appellant,

vs.

KAMMERER CORPORATION, a corporation, and BAASH-ROSS TOOL COMPANY, a corporation,

Appellee.

Upon Appeals from the District Court of the United States for the Northern District of California, Southern Division

PROCEEDINGS HAD IN THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE NINTH CIRCUIT

(After Remand of Cause From Supreme Court of United States)

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Supreme Court of the United States

No. 836—October Term, 1943

IRA J. McCULLOUGH,

Petitioner,

vs.

KAMMERER CORPORATION and BAASH-ROSS TOOL COMPANY.

On Petition for Writ of Certiorari to the United States Circuit Court of Appeals for the Ninth Circuit.

A petition for rehearing having been submitted in this case;

Upon consideration thereof, it is ordered by this Court that the petition for rehearing be, and the same is hereby, granted.

And it is further ordered that the order denying certiorari, entered May 8, 1944, be, and the same is hereby, vacated; and that the petition for writ of certiorari herein be, and the same is hereby, granted.

And it is further ordered that the duly certified copy of the transcript of the proceedings below

which accompanied the petition shall be treated as though filed in response to such writ.

June 5, 1944.

A true copy

Test:

[Seal] CHARLES ELMORE CROPLEY,
Clerk of the Supreme Court of the United States.

By: HUGH W. BARR,
Deputy.

[Endorsed]: Filed June 12, 1944. Paul P. O'Brien, Clerk. [1099]

United States of America--ss.

The President of the United States of America,

[Seal]

To the Honorable the Judges of the United States Circuit Court of Appeals for the Ninth Circuit,

Greeting:

Whereas, lately in the United States Circuit Court of Appeals for the Ninth Circuit, in a cause between Ira J. McCullough, Appellant, and Kammerer Corporation and Baash-Ross Tool Company, Appellees, No. 9957, wherein the judgment of the said Circuit Court of Appeals, entered in said cause on the 18th day of October, A. D. 1943, was in favor of the said appellees, Kammerer Corporation et al., and against the said appellant; as by the

inspection of the transcript of the record of the said United States Circuit Court of Appeals which was brought into the Supreme Court of the United States by virtue of a writ of certiorari, agreeably to the act of Congress, in such case made and provided, fully and at large appears.

And whereas, in the present term of October, in the year of our Lord one thousand nine hundred and forty-four—the said cause came on to be heard before the said Supreme Court, in the said transcript of record, and was argued by counsel:

On consideration whereof, It is now here ordered by this Court that the writ of certiorari in this cause, be, and the same is hereby, dismissed with costs; and that the said appellees, Kammerer Corporation, et al., recover against the said appellant Twenty Dollars, the attorney's docket fee herein, and have execution therefor.

And it is further ordered, That this cause be, and the same is hereby, remanded to the said Circuit Court of Appeals.

January 2, 1945.

You, therefore, are hereby commanded that such execution and proceedings be had in said cause, as according to right and justice, and the laws of the United States, ought to be had, the said writ of certiorari notwithstanding.

Witness, the Honorable Harlan F. Stone, Chief Justice of the United States, the fifth day of Feb-

ruary, in the year of our Lord one thousand nine hundred and forty-five.

Cost of appellees.

Clerk	$ paid
Attorney	$20.00
	$20.00

CHARLES ELMORE CROPLEY,
Clerk of the Supreme Court of the United States.

[Endorsed]: Filed February 10, 1945. Paul P. O'Brien, Clerk. [1100]

United States Circuit Court of Appeals
for the Ninth Circuit

No. 9957

IRA J. McCULLOUGH,

Appellant,

vs.

KAMMERER CORPORATION, a corporation, and BAASH-ROSS TOOL COMPANY, a corportion,

Appellees.

MOTION FOR MODIFICATION OF APPELLATE COURT DECREE AND/OR FOR PERMISSION TO APPLY TO THE DISTRICT COURT

Now Comes appellant Ira J. McCullough and moves this Court for a modification of its decree

herein, dated October 18, 1943, affirming the District Court in finding the patent in suit valid and infringed, by eliminating from such decree any affirmance of paragraphs VI and VII of the two District Court Interlocutory Judgments (R. 121-122, 126), providing for payment by defendant to plaintiffs of profits and damages for alleged patent infringement, with costs of suit. [1102]

The grounds for this motion are that plaintiffs (appellees here) have used the patent in suit contrary to public policy and in restraint of trade, for which reasons they come into a Court of Equity with "unclean hands" and are not entitled to an accounting of profits and damages for alleged patent infringement.

The Reilly and Stone patent suit, which this Court in the majority opinion found valid and infringed (138 F. (2d) 482), expired on April 18, 1944, and the injunction terminated on that date. That opinion is not now here questioned. Validity and infringement having been found, the only remaining issue is whether appellees, because of the misuse of the patent, should proceed with an accounting, as provided for in paragraphs VI and VII of the Interlocutory Judgments entered in the District Court.

In the alternative, appellant moves for permission to apply to the District Court to reform said Interlocutory Judgments and stay the accounting, or for such other and different relief as may seem proper.

At the hearing appellant will rely on the proceedings in the United States Supreme Court herein, the transcript of record and particularly the license agreement between appellees (Pltffs'. Ex. 7, R. 179, 854), reproduced as an appendix hereto, and the following points and authorities.

R. WELTON WHANN,
A. W. BOYKEN,
ROBERT M. McMANIGAL,
Attorneys for Appellant.

I Hereby Certify that, in my judgment, the foregoing motion is well founded and that it is not interposed for delay.

A. W. BOYKEN,
Attorney for Appellant.

Dated: January 25, 1945. [1104]

Points and Authorities in Support of Motion

I.

THE SUPREME COURT OF THE UNITED STATES PASSED THE ISSUES HEREIN RAISED TO THE COURTS "BELOW" FOR DECISION.

A petition for writ of certiorari was filed by appellant in the Supreme Court of the United States, subsequent to the entry of a decree by this Court, alleging misuse of the patent in suit upon substantially the same grounds as hereinafter urged.

and the petition was granted on June 5, 1944. 322 U.S. 766; 64 S.Ct. 1277. Meanwhile, the mandate to the District Court was stayed, pending a decision of the Supreme Court.

The case was briefed and fully argued in the Supreme Court on December 11, 1944, the Solicitor General filing an amicus curiae brief. On January 2, 1945, the Supreme Court dismissed the writ of certiorari upon the ground that the issues therein raised were "not properly raised, litigated or passed upon below." ..... U.S. ..... ; 65 S.Ct. 297.

The purpose of this motion is to submit the same issues to this Court or, in the alternative, to the District Court, so that they may be "properly raised, litigated or passed upon below."

The Supreme Court sits as a court of final review. The fact that a writ of certiorari was granted is strongly persuasive that had the defense been presented below, the [1105] Court would have stayed the accounting and dismissed the suit.

II.

THE LICENSE AGREEMENT (PLTFFS'. EX. 7), EMBODIES RESTRICTIVE COVENANTS WHICH ARE AGAINST PUBLIC INTEREST AND IN RESTRAINT OF TRADE

Two suits, which were consolidated for trial, both involved the alleged infringement of the Reilly and Stone Patent No. 1,625,391, dated April 19, 1927

(now expired), covering a tool for cutting and removing stuck drill pipe from oil well holes. Appellees Kammerer Corporation and Baash-Ross Tool Company, plaintiffs below, were respectively the owner and exclusive licensee under said patent (R. 7, 11).

By the license agreement between appellees, the patent owner granted to the licensee the exclusive right and license to manufacture and use, but not to sell, devices embodying the invention of the aforesaid patent. The licensee covenanted "during the term of this license not to manufacture or use or rent any device which will be in competition with the device or devices covered by this license agreement." The licensor covenanted "during the term of this agreement, not to manufacture, sell, rent, license, use, or in any way do business with the device or devices covered by this agreement or with devices which will come or be in competition with the device or devices covered by this agreement."

Under this license agreement, a system of renting the patented tool was devised, whereby the charge for performing [1106] a single cut of stuck drill pipe, as fixed in the agreement, was $190.00 (R. 290), though the agreement sets a value of only $300.00 on each tool (R. 857, 859). In other words, the oil well owner in this country could not purchase the patented cutter, but was obliged to rent the same, which included a service charge for the skill and labor of an operator in the employ of licensee (R. 288, 290, 291). Over two million dollars

was paid by the oil industry for so-caled rentals (R. 860-867), one-half of which amount went to licensor as a patent royalty under the license agreement (R. 177-178, 260; R. 850-867), at an excessive 50% rate and royalties were still paid at the time of trial (R. 257). Licensee does business throughout the oil fields of the United States and with foreign countries (R. 157). Appellee Baash-Ross Company found it commercially feasible to sell the patented tool in Canada while at the same time conducting a rental business there (R. 284).

The exact wording of offensive portions of the license agreement is as follows:

"1. The Licensor hereby grants to the Licensee the exclusive right and license to manufacture and use, but not to sell, devices embodying the aforesaid inventions under any Letters Patent now granted or which may hereafter be granted on any applications now pending or any patents hereafter obtained on improvement . . . said license to continue for the full term of any Letters Patent granted for said inventions or improvements thereon." (R. 854-855)

"2. The Licensee covenants and agrees during the term of this license to pay the Licensor hereunder upon all devices embodying the aforesaid inventions, [1107] a royalty of 50% of the gross earnings accruing by the use of said devices by the Licensee."

"3. The Licensee covenants and agrees during the term of this license to charge as a rental for

the use of said device or devices the sum of One Hundred and Ninety Dollars ($190.00) per cut made by said device or devices." (R. 855)

"11. The Licensee covenants and agrees during the term of this license agreement not to manufacture or use or rent any device which will be in competition with the device or devices covered by this license agreement."

"12. The Licensor covenants and agrees that during the term of this agreement, not to manufacture, sell, rent, license, use, or in any way do business with the device or devices covered by this agreement or with devices which will come or be in competition with the device or devices covered by this agreement." (R. 857-858)

Under the licensee agreement, appellees have been using their patent monopoly to:

(1) Suppress the use of competing devices;

(2) Suppress the sale of the patent device by both the patent owner and licensee;

(3) Fix prices for the use of the patented device, which require the use of an unpatented commodity.

We shall consider each of these separately. [1108]

1. The Covenants of Appellees Not to Deal in Devices Competitive With the Licensed Devices Constituted an Attempt to Extend the Patent Monopoly and Were Illegal.

It is apparent upon the face of the license agree-

ment that the covenants not to compete went beyond the patented devices licensed under the agreement and applied to any compting devices whatsoever. As a condition of the granting and receiving of the license for the patent in suit appellees debarred themselves wholly and unconditionally from dealing in devices competing with the devices licensed, irrespective of whether the competing devices are unpatented, are patented by others or even by the parties themselves.

That the obligations of those covenants went beyond the scope of the monopoly of the licensed patent seems too obvious to admit of dispute. By its covenant the licensor sought to require one of the important manufacturers and users of oil well drilling and fishing tool (R. 203, 287) to abandon the use of all drill cutters other than the licensed cutter (whether patented or unpatented) and to prevent it from using any newly developed competitive devices. The licensee, on the other hand, required, and the licensor assumed, similar obligations in restraint of trade.

The principles enunciated by the Supreme Court, for the violation of which certiorari was granted, seem clearly applicable to this case. Those principles have been concisely summarized in the statement that the licensor may not

". . . condition the license so as to control conduct by the licensee not embraced in the patent monopoly." [1109] Ethyl Gasoline Corporation et al.

v. United States, 309 U.S. 436, 456 (1940); 60 S.Ct. 618.

The result which we urge here, upon similar reasoning, was reached by the Circuit Court of Appeals for the Third Circuit in National Lockwasher Company v. George K. Garrett Company, Inc., 137 F. (2d) 255 (1943), in which the sole question before the Court was the legality of a patent license agreement which, in the words of the Court,

". . . contained a provision to the effect that the licensee agrees, while the agreement is in force, that it will not manufacture any other form of non-tangling spring washers except those covered by the patent in suit. It is not disputed that there are other forms of unpatented non-tangling spring washers than those involved in the Loutrel patent." (p. 256)

That Court, purporting to follows the decisions of the Supreme Court, said in part:

"We think the instant case, on the facts as the defendant represents them, falls within the principle of the case cited to the extent that the patentee is using the lawful monopoly granted by the patent as a means of suppressing the manufacture and sale of competing unpatented articles. It is not creating for itself a monopoly for unpatented goods, as in some of the cases cited. But it is attempting by means other than that of free competition, to extend the bounds of its lawful monopoly to make, use and vend the patented device to the extent where such device would be the only one available to a user

of such an article. This monopoly is obviously not covered by the patent. A patentee's right does not extend to the [1110] use of the patent to purge the market of competing non-patented goods except, of course, through the process of fair competition." (p. 256)

And, on the basis of evidence[1] which apparently consisted of little more than the existence and terms of such license agreements, the Court ordered the complaint dismissed on the ground that:

"We think this is enough; enough to show that the plaintiff was using its patent to suppress competition with it by non-patented articles. To the extent that the policy was successful the supply of

---

[1]As in the National Lockwasher case, the Record in this case shows that competing devices for cutting and removing stuck pipe in well holes were available to the public. "Such tools were in common use long before Reilly and Stone claimed invention," said Judge Mathews in his dissenting opinion (R. 1093). Luther Patent No. 111,221 (R. 910), which expired in 1888, shows such a device. Kellogg Patent No. 657,777, Hill Patent No. 1,338,773, Jones Patent No. 1,454,819, and others, all expired, show casing or pipe-cutting tools (R. 930, 1002, 1018). The Segelhorst Patents Nos. 1,535,348, 1,599,067 and 1,767,018 (R. 1030, 1038, 1052), cover tools for cutting off and removing drill pipe or tubing within a well. Many others were shown and described in the patents enumerated in a footnote (R. 1093-4). Appellant's Patent No. 2,133,628 (R. 1061) is for an apparatus for externally cutting stuck pipe which is far superior to that disclosed in the patent in suit (R. 679-685).

competing non-patented washers would, of course, disappear." (p. 257)

The provisions of the license agreement between appellees in the present suit are substantially identical in words, and entirely identical in substance, with the license provisions considered by the Court in the National Lockwasher case. Indeed, the license agreement between appellees goes further in that not only did the licensee agree not to deal in competing devices, but did did the licensor. [1111]

The covenants of appellees, although of far broader scope, include an obligation to suppress their own inventions, even patented ones. Whatever right a patentee has not to use his patented invention (see Continental Paper Bag Company v. Eastern Paper Bag Company, 210 U.S. 405 (1908), he has no right to agree with another that he will not use it. This proposition was considered by the Court in Blount Manufacturing Company v. Yale & Towne Manufacturing Company, 166 Fed. 555, 560 (D. Mass. 1909), which said:

"Granting that nonuse of an invention is fully within the right of the owner of a patent, it does not follow that he may by agreement bind himself to nonuse, save in connection with an assignment of his letters patent. Ownership of a patent involves no obligation to use, nor does ownership of other property. Nonuse ordinarily violates no law; but contracting with another, putting it in the power of another to compel one not to use, is a contract in

restraint of trade, designed for the purpose of suppressing competition."

Similarly, a covenant like that of the licensor, made by a patentee in connection with an assignment of patents, has been held .

". . . void and invalid, and cannot be enforced, because it is in general restraint of trade, unreasonable and against public policy." (Jones Cold Store Door Co. of Washington County v. Jones, 70 Atl. 88, 91 (Md. 1908).)

The only possible argument in justification of the validity of the licensor's covenant not to compete is that such a covenant constitutes a reasonable restraint of trade because it is in aid of the granting of a license. Such an argument would, of course, if it had any validity, have been equally applicable to the restraint in the Jones case, supra. That the argument has no force, however, is, we believe, apparent from the scope of the covenant. The obligation assumed by the licensor is at least as great as it could legally have assumed if it had been made an ancillary to the conveyance of an entire business and its attendant good-will. In other words, it is far greater than was reasonably necessary to prevent derogation from the grant of the exclusive license. The rule as laid down by Lord Macnaghten and approved by Judge (later Mr. Chief Justice) Taft in United States v. Addyston Pipe & Steel Co. et al., 85 Fed. 271, 282 (C.C.A. 6th, 1898), mod. and aff'd 175 U.S. 211 (1899), is:

"We do not see how a better test can be applied

to the question whether this is or not a reasonable restraint of trade than by considering whether the restraint is such only as to afford a fair protection to the interests of the party in favor of whom it is given, and not so large as to interfere with the interests of the public. Whatever restraint is larger than the necessary protection of the party requires can be of no benefit to either. It can only be oppressive. It is, in the eye of the law, unreasonable. Whatever is injurious to the interests of the public is void on the ground of public policy."

Measured against this rule, which has become axiomatic in the law, the licensor's covenant is obviously unreasonable. The licensee had no right to restrain generally and without substantial limitation the licensor's business. [1113]

It cannot be contended that the covenant by the licensee that it would not manufacture or use or rent any competing device, patented or unpatented, was necessary for the portection of the licensor because the latter had placed in the licensee's hands the sole control and development of the patent. This situation is not unusual, and there are well established lawful methods whereby the licensor may protect himself. He may provide for minimum royalties. Or he may stipulate that if certain gross royalties are not attained, the license shall cease to be exclusive and he shall be free to license others. Or he may provide that in the event that a minimum number of tools were not manufactured and put to

use, the exclusive license would similarly become non-exclusive.

This pattern was not unknown to the draftsman of the license since he substantially followed it in Paragraph 14 of the agreement.[1] The provisions of that paragraph alone make clear the lack of any necessity, in protecting the return from the patent, for the covenant by the licensee not to manufacture, use or rent every present or future competing device. Necessarily, whatever may be an exclusive licensee's obligation to exploit, as a matter of law, or whatever obligations the licensor could have legally imposed upon the licensee, it is clear that the licensee's covenant transcended them. The obligation is absolutely without limitation and fails to make provision for the necessities of the licensee in the face of competition [1114] from superior devices or otherwise. That the unlimited restraint imposed by the licensor on the licensee may be more convenient or advantageous to the licensor is, of course, without relevance. B. B. Chemical Co. v. Ellis et al., 314 U.S. 495 (1942); 62 S. Ct. 406.

It is clear that appellees, in so far as they could, sought through the patent "to purge the market of competing" goods. This was not necessary for or even reasonably related to securing a full return

[1]There the licensor provided that if the licensee could not supply with the patented tool all of "the operators in the oil fields of the United States," the lincense would become non-exclusive and others could be licensed to whatever extent would be needed to cover this country-wide market.

from the invention, and hence was clearly outside the scope of the patent.

2. The License Agreement Between Respondents Preventing Sale of the Licensed Device by Either of Them Was Illegal.

Under the license agreement neither of appellees could sell the device covered by the licensed patent. Thus a restraint on the sale of the device has been created by agreement and may only be removed by further agreement between the parties.

This is not the usual case of one of the parties to a patent license agreement imposing restraints on itself in favor of the other, but which leaves the other free to act in the premises. It is a case where both of the parties have imposed restrains on themselves so effectually that neither of them can sell a device covered by the licensed patent. The result has been that for using a tool costing $300 to manufacture (R. 857, 859) the American oil well industry paid considerably over $2,000,000 in rentals (R. 860-867) on the basis of the disproportionate charge of $190 per use. It is submitted that an agreement which leaves neither party free to sell in this country is against public policy and illegal. [1115]

3. The Fixing of the Price Which the Licensee Much Charge for the Use of the Patented Tool, Including the Service Charge, Was Beyond the Scope of the Patent and Illegal.

So far as we know, the Supreme Court has never

held that a non-manufacturing licensor may in a license agreement fix the price which the licensee is to charge in the sale or for the use of the patented device. In United States v. General Electric Co. et al., 272 U.S. 476 (1926); 47 S.Ct. 192, the Court did hold that a manufacturing licensor may, as a condition of a license to another manufacturer, fix the price at which the licensee will sell. But it is implicit in both the reasoning and language of the opinion that the decision then made was to be limited to this situation. The Court pointed out that:

"One of the valuable elements of the exclusive right of a patentee is to acquire profit by the price at which the article is sold. The higher the price, the greater the profit, unless it is prohibitory. When the patentee licenses another to make and vend, and retains the right to continue to make and vend on his own account, the price at which his licensee will sell will necessarily affect the price at which he can sell his own patented goods. It would seem entirely reasonable that he should say to the licensee, 'Yes, you may make and sell articles under my patent but not so as to destroy the profit that I wish to obtain by making them and selling them myself'." 272 U.S. 476, 490 (Underscore supplied.)[1]

In reaching this conclusion, however, the Court indicated that the criteria for examining the validity

[1] In United States v. Vehicular Parking, 54 F. Supp. 828, 838 (D. Del. 1944), the Court, in referring to this quotation, said: "From this language it appears that the decision in the General Electric case is predicated upon the patentee making and vending the patented device."

of conditions in a patent license was to determine whether they

"... are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly." (Id.)

It has likewise become settled that licensing conditions are illegal which are not

"... used as a means of stimulating the commercial development and financial returns of the patented invention which is licensed, but for the commercial development of the business ..."

of those who are licensed. Ethyl Gasoline Corporation, et al. v. United States, 309 U.S. 436, 459 (1940); 60 S.Ct. 618; cf. Special Equipment Co. v. Coe, 144 F. (2d) 479 (App. D.C. 1944). In the present case the licensor could have exacted from the licensee a specific royalty for the use of the invention. If the licensor had been genuinely convinced of the commercial worth of the invention, and of the patented tool's ability to make its competive way unassisted by restrictive covenants, the licensor could have rested on the covenant of the license that a percentage of gross earnings or profit should be paid. But it went further and specified, in Paragraph 3 of the license, the price per cut which the licensee was to charge "as a rental for the use" of the patented tool.

It is submitted that in so doing it went beyond the lawful scope of the patent and was obviously seeking to control and protect the earnings of the

licensee. For the licensor has a legitimate interest only in what it gets from the invention. It engages neither in manufacture, sale, nor [1117] rental of the patented device. It has a legitimate interest only in the return on the license to use. It could fix a measurement for this amount. It could have specified a definite royalty leaving the licensee, in the conduct of its own business, to secure whatever "rental charge" competition required. It is submitted that in fixing the amount that the licensee had to "charge as a rental" it went beyond the scope of the patent.

That this is so is made clear by the record of actual practice in the operation of the agreement. The record discloses that in addition to providing its own employees who direct the manner in which the tool is used (R. 290; 903-904) these employees must have available extra parts necessary for replacement purposes, especially knives which wear out (R. 289). The cutters are made in varying sizes (R. 289) and so many cutters and parts are required that licensee maintains fully stocked stores in six or seven different states to meet these requirements (R. 290). The amount of the "charge as a rental," which the licensor undertook to prescribe, thus covered not only the privilege of use of the patented tool, but also the charge for these supplementary services. Obviously, it is no business of the patentee or licensor, licensing the use of the patented device, to concern itself with these supplementary services and employees. Likewise, it is not licensor's business, but that of the licensee, to determine the cost

and price to be charged for such services. Yet it is perfectly clear that the amount specified for the "charge as a rental" included both services and employees. The patent owner secured a fifty per cent (50%) royalty from the rental of the tool and fifty (50%) of the service charge. The situation disclosed is curiously analogous to the use of the patent to control the use or price or unpatented materials.

For these reasons it is submitted that the patent as here used could not lawfully extend to cover the fixing of the price for such use with attendant other services by the licensee, and apart from any patent justification, such price fixing arrangement was clearly an illegal restraint of trade. United States v. Socony-Vacuum Oil Comany, Inc. et al., 310 U.S. 150 (1940); 60 S.Ct. 811; United States v. Trenton Potteries Co. et al., 273 U.S. 392 (1927); 47 S.Ct. 377; Standard Sanitary Maufacturing Company v. United States, 226 U.S. 20 (1912).

III.

THE MISUSE OF THE PATENT BY APPELLEES BARS THEM FROM USING A COURT OF EQUITY TO ENFORCE THE PATENT GRANT.

In a long line of decisions, the Supreme Court has consistently held that the owner of a patent may not use the leverage of his patent contrary to public interest and in restraint of trade.

In Motion Picture Patents Co. v. Universal Film

Mfg. Co. (1917), 243 U.S. 502, 37 S.Ct. 416, it was held that the control of the sale of unpatented supplies was not within a patentee's domain and therefore an unwarranted restraint of competition.

Later decisions by the Court, such as Carbice Corporation of America v. American Patents Development Corporation, 283 U.S. 27, 51 S.Ct. 334; Leitch Mfg. Co. v. Barber Co., Inc., 302 U.S. 458, 58 S.Ct. 288, and Ethyl Gasoline Corporation v. United States, 309 U.S. 436, 60 S.Ct. 618, strengthens that doctrine.

The Morton Salt Case

Not until January 15, 1942, when Morton Salt Co. v. G. S. Suppiger & Co., 314 U.S. 488, 62 S.Ct. 402, was decided did the Supreme Court hold that irrespective of the Anti-Monopoly laws, a patent owner could not maintain an infringement suit against anyone if it appeared that the patent right was being asserted contrary to the public interest. The equitable defense of "unclean hands" was invoked and Mr. Chief Justice Stone said:

"The grant to the inventor of the special privilege of a patent monopoly carries out a public policy adopted by the Constitution and laws of the United States, 'to promote the Progess of Science and Useful Arts, by securing for limited Times to . . . Inventors the exclusive Right . . . ' to their 'new and useful' inventions. United States Constitution, Art. 1, §8, cl. 8; 35 U.S.C. §31, 35 U.S.C.A. §31. But the public policy which includes inventions within the granted monopoly excludes from it all

that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant.

"It is a principle of general application that courts, and especially courts of equity, may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest. (Page 492) . . . It is the adverse effect upon the public interest of a successful infringement suit in conjunction with the patentee's course of conduct which disqualifies him to maintan the suit, regardless of whether the particular defendant has suffered from the misuse of the patent. (P. 494) . . .

"It is unnecessary to decide whether respondent has violated the Clayton Act, for we conclude that in any event the maintenance of the present suit to restrain petitioner's manufacture or sale of the alleged infringing machines is contrary to public policy and that the district court rightly dismissed the complaint for want of equity." (P. 494).

The Univis Lens and Masonite Cases

Four months after the Morton Salt case, the Supreme Court decided United States v. Univis Lens Co., 316 U.S. 241, 62 S.Ct. 1088 and United States v. Masonite Corporation, 316 U.S. 265, 62 S.Ct. 1070. The Univis Lens case was an action against a patent owner for violation of the Sherman Anti-Trust

Act by reason of an objectionable licensing system established under patents. In writing the opinion Mr. Chief Justice Stone said:

"In construing and applying the patent law so as to give effect to the public policy which limits the granted monopoly strictly to the terms of the statutory grant (Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488, 62 S.Ct. 402, 86 L. Ed. 363), the particular form or method by which the monopoly is sought to be extended is immaterial."

The Masonite case related to a manufacturer of a patented article who entered into price-fixing agency agreements in violation of the Anti-Trust Act. In the opinion, [1119] Mr. Justice Black held that arrangements by which a patent is utilized are subject to the general law, saying:

". . . In applying that rule this Court has quite consistently refused to allow the form into which the parties chose to cast the transaction to govern."

The statement of principle in these two cases covers the situation here.

The exact manner in which the patent monopoly is extended is unimportant. In earlier decisions of the Supreme Court, the abuse usually took the form of forcing on customers a non-patented article to be used in connection with the patented article Carbice Corporation of America v. American Patents Dev. Corpn., 283 U.S. 27, 51 S.Ct. 334, and International Business Machines Corpn. v. United States, 298 U.S. 131, 56 S.Ct. 701, were typical. Not only is a patentee under those circumstances

open to attack by the public authorities, but in view of the Morton Salt case, he is even precluded from enforcing his rights as patentee, against an alleged infringer, so long as he is making improper use of the patent. "The patentee, like these other holders of an exclusive privilege granted in the furtherance of a public policy, may not claim protection of his grant by the courts where it is being used to subvert that policy," says the Court in the Morton Salt case at page 494 of the report.

In the later Univis Lens and Masonite cases, supra, it was held that the particular form or method of extending the monopoly is immaterial and it is now an established doctrine that any system of doing business by a patent owner, whereby he extends the monopoly beyond the [1120] patent grant, is not only unlawful, but the Courts will not lend assistance in enjoining infringement of that patent, so long as such manner of doing business continues.

Where the patent owner, as here, attaches to its license agreement any terms or conditions whereby the licensee is obliged not to do somthing which it would have a free right to do, but for the license, it is evident that the restraint on the licensee is outside the patent monopoly and results from the agreement.

The Mercoid Case

Only recently the Supreme Court in two cases, Mercoid Corporation v. Mid-Continental Inv. Co. et al., 320 U.S. 661; 64 S.Ct. 268, and Mercoid Cor-

poration v. Minneapolis-Honeywell Regulator Co., 320 U.S. 680; 64 S.Ct. 278 (1944), reiterated the doctrine that a patentee "may not obtain from a court of equity any decree which directly or indirectly helps it to subvert the public policy which underlies the grant of its patent" (64 S.Ct. 280), citing the Morton Salt case and B. B. Chemical Co. v. Ellis, supra. "It would aid in the consummation of a conspiracy to expand a patent beyond its legitimate scope" (64 S.Ct. 273), and "The method by which the monopoly is sought to be extended is immaterial," said the Court (64 S.Ct. 271), citing the Univis Lens case, supra. As succinctly stated in Mercoid Corporation v. Mid-Continent Investment Co., 320 U.S. 661, 669; 64 S.Ct. 268:

"It is sufficient to say that in whatever posture the issue may be tendered courts of equity will withhold relief where the patentee and those claiming under him are using the patent privilege contrary to the public interest." [1121]

The Mercoid cases also involved improper licensing practices between a patent owner and an exclusive licensee, to which the Supreme Court said:

"The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use."

If the single exclusive license agreement to make, use and sell in the Mercoid cases was objectionable because the royalty was based upon an unpatented

part, then the license agreement in the present suit is equally objectionable.

Inter State and Sola Cases

The opinion of the Supreme Court in Inter State Circuit v. United States, 306 U.S. 208, 59 S.Ct. 467, 476, lays down the principle that it is not within the monopolistic rights of a copyright owner to require his licensee to observe minimum admission prices on the showing of a copyrighted motion picture film and to abstain from presenting other pictures with the licensed film. The Court said:

"A contract between a copyright owner and one who has no copyright, restraining the competitive distribution of the copyrighted articles in the open market in order to protect the latter from the competition, can no more be valid than a like agreement between two copyright owners or patentees."

The present situation is surprisingly close in analogy to that case and it is interesting to note that the Court in the copyright case relied on the doctrine announced in earlier patent decisions. [1122]

In Sola Electric Co. v. Jefferson Electric Co., 317 U.S. 173, 63 S.Ct. 172, the Court condemned a price-fixing provision in a patent license agreement.

IV.

PLAINTIFFS ARE NOT ENTITLED TO AN ACCOUNTING AND PAYMENT OF PROFITS AND DAMAGES, EVEN THOUGH THIS COURT HAS HELD THE PATENT VALID AND INFRINGED.

This precise point was decided in National Lockwasher Co. v. George K. Garrett, 137 F. (2d) 255, previously referred to at length herein. That was an infringement suit in which the Circuit Court of Appeals for the Third Circuit held the patent valid and infringed, directing an accounting of profits and damages, thereby affirming the interlocutory judgment or decree (98 F. (2d) 643). Thereupon the case was sent back to the District Court for such accounting and the Special Master rendered a report awarding the sum of Seventeen Thousand Nine Hundred Ninety-four and 25/100 ($17,994.25) Dollars to plaintiff, which was affirmed by the District Court. Defendant then appealed for the second time from the final judgment rendered upon the Master's Report, raising the one point, apparently not argued on the first appeal, that the plaintiff, as patentee, by reason of an illegal license agreement, had so misused the patent in suit that no relief whatever should be granted by a Court of Equity. Accordingly, five years after the interlocutory judgment and decree was affirmed, holding the patent valid and infringed, the same Court remanded the case to the District Court with directions to dismiss the complaint. [1123]

It would be onerous for appellant here to go all through an accounting and then have this Court find the license agreement illegal, which would render the entire accounting futile.

V.

PRESENT MOTION TIMELY BECAUSE ONLY INTERLOCUTORY JUDGMENTS ENTERED AND APPELLATE COURT NOT PRECLUDED FROM EXAMINING ANY EVIDENCE WHICH MAY AFFECT ITS OWN DECREE.

Interlocutory Judgments and Decrees

The appeal here was taken from the entry of two interlocutory judgments holding the patent valid and infringed. Only an accounting of profits and damages remains, from which a second appeal, as in the National Lockwasher case, may be taken to this Court.

In Hazel-Atlas Glass Co. v. Hartford Empire Co., 322 U.S. 238, 64 S.Ct. 997, the Supreme Court recently considered a similar situation to that here presented, where one of the questions was whether, in order to alter or set aside a judgment, it was necessary to return the suit to the District Court with permission to file a bill of review. In holding this lengthy procedure was unnecessary, the Court said:

"Nothing in reason or precedent requires such a cumbersome and dilatory procedure. Indeed the

whole history of equitable procedure, with the traditional flexiblity which has enabled the courts to grant all the relief against judgments which the equities require, argues against it. We hold, therefore, that the Circuit Court on the record here presented had both [1124] the duty and power to vacate its own judgment and to give the District Court appropriate directions."

The general power of a Court to modify its own judgment or decree is undeniable and, in respect to an interlocutory decree, extends beyond the term in which the decree was entered.

Public Interest Requires Examination of All Defenses

In a patent suit the public interest requires the examination of all defenses by an appellate court, whether argued in the court below or not. Furthermore, the question of whether courts shall withhold their aid when a patent owner is extending his patent monopoly, contrary to public interest and in restraint of trade, is one of law and not fact.

This Court, in Marchus v. Druge, 136 F. (2d) 602, 605, speaking through Judge Stephens, adopted the rule "that an appellate court is not restricted to the questions decided below, but may consider all material matters in issue," citing cases.

In Morton Salt Co. v. G. S. Suppiger & Co., previously cited, the District Judge granted defendant's motion for a summary judgment, 31 F. Supp. 876, and the Circuit Court of Appeals re-

versed, 117 F. (2d) 968, holding that the lower court erroneously gave summary judgment "without an inquiry into the facts." The Supreme Court, however, reversed the appellate court and affirmed the lower court, holding that the public interest was paramount, and if the record anywhere disclosed the monopolistic extent of plaintiff's contract, that was sufficient for [1125] a decision on the merits, without further inquiry into the facts.

That the misuse of a patent involves the public interest was decided in Mercoid Corp. v. Mid-Continent Co., 320 U.S. 661, 665, 64 S.Ct. 268, from which we quote the following:

"It is the public interest which is dominant in the patent system (citing cases). It is the protection of the public in a system of free enterprise which . . . denies to the patentee after issuance the power to use it in such a way as to acquire a monopoly which is not plainly within the terms of the grant."

The public interest in patent litigation means the interest of others than the parties in suit. That being so, the general rule under which appellate courts confine themselves to the issues raised below has been relaxed in patent litigation and if there is any evidence "whether or not called to the attention of the court below"[1] sustaining a defendant's contentions, such evidence may be examined by this Court in deciding the issue.

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[1]Marconi Wireless Telegraph Co. v. United States, 320 U.S., 1, 63 S.Ct. 1393, 1413.

Said the Supreme Court in Beasley v. Texas & Pacific Ry. Co., 191 U.S. 492, 498:

". . . if it appears that an injunction would be against public policy, the Court properly may refuse to be made an instrument to such a result, whatever the pleadings. . . . But the very meaning of public policy is the interest of others than the parties and that interest is not to be at the mercy of the defendant alone." [1126]

Here the license agreement and testimony in respect thereto are undisputed and misuse of the patent contrary to the public interest is clearly supported by the record.

"Unclean Hands" Defense

In the present suit, defendant in his answer pleaded the equitable "unclean hands" maxim and alleged that plaintiffs are "estopped from enforcing any right of action against defendant" (Answer R. 78). The basis for the present motion, therefore, appears in the original answer as filed.

But the defense of "unclean hands" need not be pleaded in order to be considered by a Court. Wherever the evidence discloses "unclean hands," the Court will, of its own motion, apply that maxim of equity in the interest of due administration of justice and such defense cannot be obviated or waived by any system of pleading or even by the express stipulation of the parties (Ford v. Caspers, 42 F. Supp. 994, affirmed, 128 F. (2d) 884, C.C.A. 7). The "unclean hands" maxim may come to the

attention of the Court in any way, whereupon the Court will act sua sponte (American Ins. Co. v. Lucas, 38 F. Supp. 896; 38 F. Supp. 926; affirmed 129 F. (2d) 143).

The "unclean hands" defense is primarily one of public interest (Bell & Howell v. Bliss, 262 Fed. 131 and General Electric v. Hygrade Sylvania, 45 F. Supp. 714), and is sufficient to deny to a patentee any relief against an alleged infringer. In General Theatres v. Metro-Goldwin-Mayer, 9 F Supp. 546, the Court said:

"The unconscionable character of a transaction need not be pleaded. Whenever it is disclosed the [1127] court will, of its own motion, apply the maxim at any stage of the proceedings."

The Morton Salt case, previously cited, was decided on the "unclean hands defense." The opinion in Vitamin Technologists, Inc. v. Wisconsin Alumni Research Foundation, decided by this Court on November 24, 1944 (63 U.S.P.Q. 262), from which we will quote under the next heading, discusses misuse of the patent, though the answer merely raised the general defense of "unclean hands" without specially pleading patent misuse in certain license agreements.

If appellees have used their patent in a manner contrary to public policy, as we contend, they undoubtedly come into a Court of Equity with "unclean hands" and this Court, notwithstanding the prior decision herein of validity and infringement,

is fully justified in staying the accounting and denying any further relief to appellees.

VI.

THE RECENT OPINION OF THIS COURT IN THE VITAMIN CASE IS DIRECTLY IN POINT AND FULLY SUPPORTS OUR ARGUMENT.

Only recently this Court, in Vitamin Technologists, Inc. v. Wisconsin Alumni, ... F. (2d) ....., 63 U.S.P.Q. 262, decided November 24, 1944, discussed at length misuse of the patent in a certain license agreement, though the specific point regarding public health, in the language of the Court, was "not argued." While misuse of the patent was not the basis of this Court's decision, yet consideration [1128] of the public policy involved was deemed important, and grounded upon the defense of "unclean hands." From the opinion we quote as follows:

"The Court also notes, sua sponte, as a tribunal concerned that equitable processes not to be used contra to the public interest, a matter in which the court is not 'at the mercy' of the parties (citing Beasley v. Texas & Pacific Ry Co., 191 U.S. 492, 498), . . .

"This raises the question, not argued, whether the effect on the public health of refusing to the uses of oleomargarine, the butter of the poor, the right to have such a food irradiated by the patented process is against the public interest. . . .

"Suppression of the use of the property in a patent has often been held the right of the holder of the patent monopoly, but the question has not been raised in connection with the public interest in restoring the health of the afflicted (citing Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405). . . .

"In the last decade, in the many cases cited above and in others, the relief of a Court of Equity has been denied because of the conduct of the patentee with reference to his monopoly property, against the public interest. . . .

"While recognizing the duty of the court, sua sponte, to protect the public interest, regardless of the contention of the parties, this also falls within the functions of the Attorney General." (Citing U. S. v. Masonite, 316 U.S. 265).[1] [1129]

The view of this Court is in harmony with Nachman Spring-Filled Corporation v. Kay Mfg. Co., 139 F. (2d) 781, 783, where the Circuit Court of Appeals for the Second Circuit, in a patent infringement suit, considered a restraint of trade and said:

"Defendant, in its brief on appeal, argues that, if the patent is invalid, the agreement is void as in restraint of trade, and that therefore we must inquire into the validity of the patent. This contention was not made in the court below; but we do not reject it on that account (citing Muncie Gear Co. v.

[1]The Solicitor General in the present suit filed an amicus curiae brief in the Supreme Court.

Outboard Co., 315 U.S. 759, 62 S.Ct. 865) . . . (since) an upper court should consider important defenses in such litigation even though not raised in the court below."

A footnote to that portion of the opinion (page 783) contains the following:

"Also pertinent are cases holding that a court should sua sponte raise the question of the illegality of an agreement where the illegality is serious (especially where an important public interest is involved), and that the defense of illegality cannot ordinarily be waived." (Citing cases.)

Since this Court has recognized its duty to protect the public interest of its own motion, as in the Vitamin case, without a specific pleading that patent suppression affected the public health, that duty is equally apparent in the present case where appellees have misused the patent by extending the monopoly obviously against public policy, in restraint of trade and even in violation of the Anti-Trust laws. [1130]

VII.

THE MORTON SALT CASE WAS DECIDED BY THE SUPREME COURT AFTER THE INTERLOCUTORY JUDGMENTS WERE ENTERED HEREIN.

In the Morton Salt case, previously referred to herein and decided on January 5, 1942, the Supreme Court for the first time held squarely that a patent owner could not maintain an infringement suit

against anyone, even an alleged direct infringer, if it appeared that the patent right had been used contrary to the public interest. That opinion was rendered after entry of the Interlocutory Judgments herein and after filing the Assignment of Errors Relied on in this Court (R. 122, 738). Hence, there was no statute or Court opinion in existence, when this suit was tried in the District Court, which supported a special defense of patent misuse herein. That is the reason why such defense was "not properly raised, litigated or passed upon below."

VIII.

IN THE ALTERNATIVE, THIS COURT MAY GRANT DEFENDANT PERMISSION TO APPLY TO THE DISTRICT COURT TO STAY THE ACCOUNTING, DENY PROFITS AND DAMAGES AND TAKE TESTIMONY IF DEEMED NECESSARY.

In the alternative, defendant asks this Court for permission to apply to the District Court, to stay the accounting, deny recovery of profits and damages for alleged patent infringement, take further testimony, or for such other and different relief as may seem proper. [1131]

Permission of this Court to apply to the District Court, under such circumstances, is a well recognized equitable procedure.

In Central California Canneries Co. v. Dunkley Co., 282 Fed. 406 (C.C.A. 9th), this Court granted leave to appellant, after affirmance of an interlocu-

tory decree holding a patent valid and infringed, to file a petition for rehearing in the trial court because of newly discovered evidence. The interlocutory decree was affirmed on October 1, 1917 (247 Fed. 790), and a petition for rehearing and petition for writ of certiorari were denied. Nearly five years after the interlocutory decree had been affirmed, but before the accounting (7 F. (2d) 972), this Court granted appellant's motion for permission to apply to the District Court.

Rown v. Brake Testing Equipment Corp., 50 F. (2d) 380 (C.C.A. 9th), was another opinion by this Court in which this method of procedure was held proper.

Other cases in point are:

Southard v. Russell, 16 How. 547;

In re Potts, 166 U.S. 263; 17 S.Ct. 520;

National Brake & Electric Co. v. Christensen, 254 U.S. 425; 41 S.Ct. 154;

Simmons v. Grier Bros., 258 U.S. 82; 42 S.Ct. 196;

Watson v. Stevens, 52 Fed. 31;

Board of Councilmen v. Bank, 120 Fed. 165;

In re Gamewell Fire Alarm, 73 Fed. 908;

O'Brien's Manual, pages 245-247. [1132]

In Seymour v. White County, 92 Fed. 115, the Circuit Court of Appeals for the Seventh Circuit, after decision affirming a judgment of the lower

court, on petition for leave to file in the lower court a bill in the nature of a bill of review, without consideration of the merits, said:

"it is deemed the better practice; unless for special reasons to the contrary, to grant the petition as of course."

If, therefore, this Court is of the opinion that the District Court, instead of the Circuit Court of Appeals, should determine whether the license agreement contains restrictive covenants which deny plaintiffs the right to recover profits and damages, the alternative motion is broad enough to include that procedure.

Respectfully submitted,
R. WELTON WHANN,
A. W. BOYKEN,
ROBERT M. McMANIGAL,
Attorneys for Appellant.

Dated: January 25, 1945.

(Appendix Folows) [1133]

APPENDIX

PLAINTIFF'S EXHIBIT No. 7

License Agreement

This Agreement, made and entered into this 18th day of October, 1923, by and between Kammerer Corporation, a corporation organized and existing under and by virtue of the laws of the State of California, with its principal place of business at

Santa Fe Springs, County of Los Angeles, State of California, hereinafter referred to as the Licensor, and L. F. Baash Perforating Company, a corporation, organized and existing under and by virtue of the laws of the State of California, with its principal place of business at Brea, County of Orange, State of California, hereinafter referred to as the Licensee:

Witnesseth:

That, Whereas, the Licensor is the sole owner of Letters Patent No. 1,277,660,[1] covering Tools for Cutting and Removing Pipe From Wells, and of that certain application for Letters Patent of the United States, Serial No. 652,511, covering Tools for Cutting and Removing Pipe From Wells, which said application was filed on the 19th day of July, 1923;[2] and

Whereas, the Licensor has and does hereby warrant that it is the sole owner of the aforesaid inventions and all rights thereto; and [1134]

Whereas, the Licensee is desirous of obtaining a license to and for the said inventions and any Letters Patent which may be granted on said application to the Licensor;

Now, Therefore, for and in consideration of their respective covenants and agreements hereinafter

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[1]Probably misprint in record, as correct number of Kemmerer Patent is 1,277,600.

[2]This is the application for the Reilly and Stone Patent in suit.

contained, and of the full and faithful performance of each and every thereof, the parties hereto have and do hereby mutually agree as follows:

1. The Licensor hereby grants to the Licensee the exclusive right and license to manufacture and use, but not to sell, devices embodying the aforesaid inventions under any Letter Patent now granted or which may hereafter be granted on any applications now pending or any patents hereafter obtained on improvements on the device or devices above mentioned, throughout the United States of America and the territories thereof, said license to continue for the full term of any Letters Patent granted for said inventions or improvements thereon.

2. The Licensee covenants and agrees during the term of this license to pay the Licensor hereunder upon all devices embodying the aforesaid inventions, a royalty of fifty per cent (50%) of the gross earnings accruing by the use of said devices by the Licensee.

3. The Licensee covenants and agrees during the term of this license to charge as a rental for the use of said device or devices the sum of One Hundred and Ninety Dollars ($190.00) per cut made by said device or devices.

4. The Licensee agrees to keep true and accurate books of account showing in detail the number of devices embodying the aforesaid invention manufactured by the [1135] Licensee, together with the dates of the use thereof and the names of the

parties to whom the same were rented or upon whose property the same were used, which books of account shall be open at all usual business hours for the inspection of the Licensor or its duly authorized agents. The Licensee further agrees to render to the Licensor on or before the fifteenth day of each and every calendar month during the term of this license, a true and correct statement in writing, setting forth the quantity of said devices manufactured by the Licensee during the preceding calendar month, together with a statement showing the dates of the use or rental thereof and the number of cuts made and the parties for whom the device or devices were used during the preceding calendar month.

5. The Licensee covenants and agrees to pay to the Licensor at its office at Santa Fe Springs, Los Angeles County, California, the royalties on the cuts reported in the statements hereinabove provided within thirty-six days after the statements are rendered.

6. It is hereby mutually covenanted and agreed by and between the parties hereto that any accounts of business done under this agreement by the Licensee, which are not paid within six (6) months from the time the statements of such business are rendered to the Licensor as hereinbefore provided, shall be considered bad accounts and any royalties which may have been paid on such business shall be deducted from the royalty account of the Licensor.

It is further agreed that at the time of making any such deduction the Licensor shall have the right

to take over the collection of such account or accounts by so notifying [1136] the Licensee and that for the purpose of collection the Licensor may use the Licensee's name and that for every such account collected by the Licensor, the Licensor may retain in addition to its royalty, all costs of collection.

It is further understood and agreed that whenever the Licensor has refunded the royalty or any non-collectible account and the Licensee thereafter makes collection of said account, that the Licensee shall repay the royalty theretofore refunded.

It is further understood and agreed that the Licensee will cooperate with the Licensor by furnishing the necessary evidence to prove the account on such claims as the Licensor undertakes to collect pursuant to this agreement.

7. The Licensee covenants and agrees that in the manufacture of devices under this license agreement it will stamp on all such devices so manufactured the word "Patented", together with the date of said patent or patents.

8. The Licensor agrees to diligently prosecute the aforesaid application for Letters Patent, Serial No. 652,511, and procure Letters Patent covering said invention, if possible, at the earliest date, and the Licensor agrees to indemnify and save harmless the Licensee against any and all liability, damage, loss or injury adjudged or sustained by reason of any claim or suit that said device constitutes an

infringement upon any Letters Patent heretofore or hereafter granted; provided, however, that in case suit is brought against the Licensee, the Licensor [1137] shall be given notice thereof and shall have opportunity to intervene and defend said claim or suit.

9. The Licensee hereby covenants and agrees that the Licensor shall have, and it is hereby given, a first lien on all devices manufactured under this agreement as and for security for the payment to the Licensor of all unpaid royalties which may accrue during the term of this agreement.

10. It is hereby mutually covenanted and agreed by and between the parties hereto that should the Licensee become bankrupt or be thrown into the hands of a receiver or receivers, then and in that event the Licensor shall have the option to purchase all of the devices manufactured by the Licensee under the terms of this agreement at the agreed price of three hundred ($300.00) Dollars, for each and every such device, and in payment for such devices the Licensor shall deduct from the purchase price the amount of its lien or liens for unpaid royalties and pay the remainder, if any there be, to the Licensee's trustee in bankruptcy or reciver or receivers.

11. The Licensee covenants and agrees during the term of this license agreement not to manufacture or use or vent any device which will be in competition with the device or devices covered by this license agreement.

12. The Licensor covenants and agrees that during the term of this agreement, not to manufacture, sell, rent, license, use or in any way do business with the device or devices covered by this agreement or with devices which will come or be in competition with the device or devices covered by this agreement. [1138]

13. It is mutually covenanted and agreed that this license shall be assignable by the Licensee only upon the written consent of the Licensor, its successors or assigns.

14. It is further covenanted and agreed that the Licensee shall manufacture and use the required number of devices necessary to take care of the demand for said devices amongst the operators in the oil-fields of the United States of America. And in the event the Licensee shall fail or neglect to furnish the devices necessary to take care of the demand of the oil operators in any or all of the oil-fields of the United States of America, the Licensor may serve notice on the said Licensee to manufacture and furnish devices to the operators of any or of all of the oil-fields of the United States and if within one hundred twenty (120) days after such notice has been served upon the Licensee; the Licensee still fails or neglects to furnish devices in any or all of the oil-fields of the United States where there is demand therefor, then and in that event, the Licensor may manufacture and use, or license others to manufacture and use, the devices covered by this license agreement, in such oil-fields

where the Licensee shall have failed to supply the demand for such devices, provided, however, that nothing in this paragraph contained shall give the Licensor or its licensee or licensees the permission to alter the prices fixed by this license agreement for the use of the devices covered hereby; and provided further that nothing herein contained shall require the Licensee to enter more than one oil-field in each six month period of this agreement.

15. It is further covenanted and agreed that the Licensor shall have a right and option to cancel and terminate this agreement upon written notice to the Licensee [1139] upon a breach of the terms of this agreement by the Licensee, which notice shall specify the breach and shall give the Licensee a right and option to remedy the breach within thirty (30) days after said notice. In the event that this license agreement shall be terminated in accordance with this paragraph when the said Licensee agrees to pay all royalties on cuts made prior to the date upon which this agreement becomes terminated and agrees to sell and deliver to the Licensor all the devices in existence at such time at the agreed price of three hundred ($300.00) Dollars per device.

In Witness Whereof, the Licensor has caused this agreement to be executed by its President and Secretary, duly authorized, and has caused its corporate seal to be affixed, and the Licensee has caused this agreement to be executed by its President and Secretary, duly authorized, and has caused

its corporate seal to be affixed, all on the day and year first above written.

[Seal] KAMMERER CORPORATION,
By GEO. KAMMERER,
President.

Attest:

BURDENA V. FITZGERALD,
Assistant Secretary.

[Seal] L. F. BAASH PERFORATING COMPANY,
By L. F. BAASH,
President.

Attest:

J. B. REILLY,
Secretary.

[Endorsed]: Pltff. Exhibit No. 7. Filed May 8, 1941.

[Endorsed]: Filed Feb. 12, 1945, Paul P. O'Brien, Clerk. [1140]

[Title of Circuit Court of Appeals and Cause.]

MEMORANDUM FOR APPELLEES OPPOSING APPELLANT'S MOTION FOR MODIFICATION OF THIS COURT'S DECREE AND/OR FOR PERMISSION TO APPLY TO THE DISTRICT COURT FOR SUCH MODFIFICATION

The decree of this Court affirming the judgments

of the District Court was entered October 18, 1943. A petition for rehearing was denied March 1, 1944. An order allowing certiorari was granted on June 5, 1944. By a per curiam order dated January 2, 1945, the Supreme Court dismissed the writ (.... US ...., 89 L ed 278), and the mandate remands the case to this Court without direction. By the instant motion, served February 13, 1945, appellant asks this Court to modify the decree below by eliminating Paragraphs 6 and 7 providing for the recovery by appellees of profits and damages arising out of the infringement of the patent in suit, or for permission to apply to the District Court for such [1141] modification. The motion is based on the contention that the license agreement between appellees contains provisions alleged to be in restraint of trade and therefore a misuse of the patent. The motion is opposed upon two grounds, (a) that the defense upon which appellant now seeks to rely has been waived and is no longer available to appellant, and (b) that there is no merit in appellant's assertion that the covenants of the license agreement upon which appellant relies involved any illegal restrain of trade or any misuse of the patent in suit.

I.

THE DEFENSE UPON WHICH APPELLANT NOW SEEKS TO RELY HAS BEEN WAIVED AND IS NO LONGER AVAILABLE TO APPELLANT

The license agreement between appellees (R. III-

854) was offered in evidence by appellees at the trial of this case to show under what patents royalties were paid by appellee Baash-Ross Tool Company to appellee Kammerer Corporation (R. I-179). No contention was made in the District Court that any of the provisions of the license agreement were in restraint of trade or constituted any misuse of the patent in suit. The findings of fact and conclusions of law entered by the trial court (R. I-108-118) contain no findings or conclusions upon the subject and none were requested. The statement under Rule 19 of this Court of the points on which appellant intended to rely on appeal assigned no error with reference thereto (R. II-732-737) and the defense was not urged to this Court in appellant's brief, at the oral argument before this Court, nor upon the petition for rehearing. The purported defense was first raised in this case by appellant in his petition for certiorari. In its per curiam order dismissing the writ the Supreme Court says:

"On oral argument and submission of the cause it appears that although petitioner by its amended answer alleged generally that respondents 'do not come into . . . court with clean hands,' the answer made no mention of the restrictions contained in the license agreement. The District Court made no findings of fact or law with respect to them. On appeal to the Circuit Court of Appeals petitioner assigned no error with reference to them and the Circuit Court of Appeals did not consider them saying: 'We affirm the judgments of the District

Court, considering here only the appellant's claim of error." 138 F. 2d 482.

"Thus the only question for which we granted certiorari is one not properly raised, litigated or passed upon below. Duignan v. United States, 274 US 195, 200, 71 L ed 996, 1000, 47 S Ct 566; Burnet v. Commonwealth Improv. Co. 287 US 415, 418, 77 L ed 399, 402, 53 S Ct 198; Zellerbach Paper Co. v. Helvering, 293 US 172, 182, 79 L ed 264, 270, 55 S Ct 127; United States v. Classic, 313 US 299, 329, 85 L ed 1368, 1385, 61 S Ct 1031. The grounds asserted for the allowance of certiorari are inadequately supported by the record, and the writ is therefore dismissed."

The decisions cited by the Supreme Court in support of its per curiam order are on the point that only in exceptional cases will the Supreme Court pass upon any question not pressed or passed upon below. The rule is well established in the Supreme Court that only in exceptional cases or under particular circumstances which will prompt a reviewing or appellate court to consider such a question, where injustice might otherwise result, will any question be passed upon which was neither pressed nor passed upon by the court below. Hormel v. Helvering, 312 US 552, 556, 85 L ed 1037, 1041. Other than in such an exceptional case, any defense neither pressed nor passed upon by the court below is deemed waived.

The Rule in this Court is the same as the rule in the Supreme Court. Borchard et al. v. California

Bank et al., 107 F 2d 96; Johnstone v. Commissioner of Internal Revenue, 76 F 2d 55; Coopman et ux. v. Citizens State Bank of Omak et al., 85 F 2d 799; Ex parte Keizo Kamiyama, 44 F 2d 503. As said by Judge Garrecht in United States v. Todd et al., 70 F 2d 540, [1143]

"Appellate courts look with disfavor upon questions raised for the first time in such courts for the reason that the trial court is entitled to have the entire matter presented to it and to be given an opportunity to rule thereon and not be reversed for errors of which it was not aware."

In Research Products Co. v. Tretolite Co., 106 F 2d 530, this Court held that a defense of misuse of a patent was waived because not relied upon before the Special Master and not raised in the exceptions to the Special Master's report and could not be reinstated by a motion to reopen the case.

In dismissing the writ of certiorari in this case the Supreme Court has held that this is not an exceptional case nor a case involving particular circumstances which would prompt a reviewing court to consider the question now sought to be presented by appellant's motion. The argument that the defense involves a question of public policy was urged by appellant to the Supreme Court and rejected there. Although reiterated here, there is no reason why this argument should find greater favor in this Court than it did before the Supreme Court. No question of public policy remains in this case. The patent in suit has expired (R. III-746). The case

is not therefore one which involves the effect of an injunction upon the public as in the cases upon which appellant relies. The only question remaining is whether appellant is to account to appellees for his infringement of the patent in suit. In this question the public is not interested or concerned. That the Supreme Court considered this case to be removed from those exceptional cases in which the misuse of a patent is held to be a matter of public interest is implicit in the per curiam order of the Supreme Court, as follows:

"The patent expired on April 18, 1944, only damage for infringement is involved, * * *." [1144]

The defense now sought to be relied upon by appellant in his motion having been waived by appellant's failure to press or urge the defense in this or the court below, appellant should not now at this date be allowed to advance such defense. As said in Container Patents Corp. v. Stant et al., 143 F 2d 170, 172 (CCA 7), of a defense like unto that now urged by appellant:

"As to this defense it is sufficient to say that it was not presented to the court below and it cannot be presented here for the first time. New York Life Ins. Co. v. Calhoun, 8 Cir. 114 F. 2d 526, 543; Ramming Real Estate Co. v. United States, 8 Cir. 122 F. 2d 892; Hutchinson v. Fidelity Investment Association, 4 Cir., 106 F. 2d 431, 436, 133 A.L.R. 1061; Towle v. Pullen, 7 Cir., 238 F. 107, 111."

Compare Flexwood Co. v. Faussner & Co., 145 F

2d 528 at 537 (Footnote 8), where District Judge Barnes, after writing the opinion for the Circuit Court of Appeals for the Seventh Circuit, in determining and overruling such a defense on the merits, said:

"Since writing the above, the writer's attention has been called to the opinion of this court in Container Patents Corporation v. Stant, 143 F. 2d 170, 172, where a third, and undoubtedly the best, course was followed."

It is equally clear that this case should not be remanded to the District Court with permission to entertain the defense heretofore waived by appellant. The cases relied upon by appellant in support of his request for leave to the District Court are cases involving newly discovered evidence. Here appellant does not assert that there is any newly discovered evidence or any further evidence to be considered by the District Court. Appellant's contention that the decrees below are merely interlocutory and that therefore appellant may in any event raise this defense on the accounting is manifestly erroneous. It is well settled that the decrees below are final except for the taking of an accounting. Carson Investment Co. v. Anaconda Copper Mining Co., 26 F 2d 651 (CCA 9); In re Potts, 166 US 263, 41 L ed 994; Larkin Automotive Parts Co. v. Bassick Mfg. Co., 19 F 2d 944 (CCA 7). [1145] The defense relied upon here, if given the effect sought by appellant, would be a matter in bar of the action, and has no bearing on the fixing of the amount due

appellees. In Flexwood Co. v. Faussner & Co., supra, the Circuit Court of Appeals for the Seventh Circuit, in denying leave to permit the District Court to entertain a defense of alleged misuse of the patents there in suit, said:

"To do this, will, however, reward or place a premium on delay in the presentation of a defense. For this reason, we have decided against this course."

II.

THERE IS NO MERIT IN APPELLANT'S ASSERTION THAT THE COVENANTS OF THE LICENSE AGREEMENT UPON WHICH APPELLANT RELIES INVOLVED ANY ILLEGAL RESTRAINT OF TRADE OR ANY MISUSE OF THE PATENT IN SUIT

The argument advanced by appellant to this Court in support of appellant's contention that the covenants of the license agreement upon which appellant relies involved any illegal restraint of trade or any misuse of the patent in suit, is a duplication of the argument advanced to the Supreme Court in this case. In lieu of setting forth in this memorandum our argument in opposition to appellant's contentions, we are filing herewith copies of our printed brief before the Supreme Court containing our argument. In this way the Court will have before it our argument as considered by the Supreme Court. In dismissing the writ of certiorari in this case, it is obvious that the Supreme

Court did not consider that the covenants of the license agreement between appellees, complained of, embody any restraint of trade or misuse of the patent of a character which would warrant the Court relieving appellant of his failure to present his purported defense in the District Court or in this Court upon the hearing of this appeal. [1146]

In our brief before the Supreme Court we contended that none of the license covenants complained of by appellant involved any unlawful restraint of trade or misuse of the patent in suit. The assertion that the patent was misused depends upon the covenants in question being held to constitute an illegal restraint of trade. It is elementary that in determining whether or not the restraint imposed by a contract is unreasonable and therefore unlawful, it is necessary to take into account all the circumstances surrounding the contract, including the relationship of the parties and their relationship to the subject-matter and its relation to the general public. The circumstances under which the invention of the patent in suit was made and the relationship of the parties to the license agreement in the ownership of that invention at the time the invention was made, are set forth in our brief before the Supreme Court at pages 4 to 10. These reveal that the license agreement represents merely a normal and useful contract designed to promote the success of a common enterprise in the nature of a joint venture. The object of the parties in entering into the agreement was merely to protect their respective interests. There was a complete ab-

sence of any intention or purpose to monopolize or restrain trade. The agreement imposed no restriction whatever upon any member of the public who might desire to use the patented invention. In lieu of restraining competition, it may fairly be said that the agreement assured and promoted competition in this industry.

(a) At pages 13 to 20 of our brief before the Supreme Court we set forth our argument that the covenants between the parties to the license agreement not to compete with the Reilly and Stone patented tool were not in restraint of trade or illegal. There are many examples in the law of the principle that covenants not to compete are legal and may be upheld where justified by the relation between the parties and the relation of the parties to [1147] the subject-matter. The relation of the parties to the agreement here was such that the covenant not to compete between appellees, complained of by appellant in this case, merely bound the parties to a course of conduct corresponding to that required of the parties to a common enterprise and which if not expressed would be implied. Such covenants or agreements between partners or parties to a common enterprise are not in restraint of trade or illegal. As said by the Court in Kinsman v. Parkhurst, 18 How. 289, 15 L ed 385:

"Similar views are decisive against the objection that this was a contract in restraint of trade. It was certainly competent for two persons, being joint owners of Letters Patent, whether valid or

invalid, to enter into a co-partnership for the manufacture and sale of the patented machines, and to stipulate that one of them should alone conduct the business. This was a provision for the prosecution of the business in a particular mode, and not for its restraint. It is a very common and not an illegal stipulation in partnership articles, that neither partner shall carry on that business for which the partnership is formed, outside of the partnership and for his own account" (p. 293).

It is likewise well settled that the parties to an exclusive license agreement may covenant not to compete with the patented invention covered by the license agreement and that such a covnant is not in restraint of trade. Such a covenant is an assurance of competition, not a restraint, because it guards against the possibility of the exclusive licensee suppressing the patented invention.

At pages 18 to 19 of our brief before the Supreme Court we urged that the decision of the Circuit Court of Appeals for the Third Circuit in National Lockwasher Co. v. George K. Garrett Co., Inc., 137 F 2d 255, relied upon by appellant, may be distinguished from this case and is not in point. In that case the patent owner conditioned the grant of licenses to various manufacturers of spring washers upon the agreement of the manufacturers not to manufacture any other form of spring washer except those covered by the patent. The parties to those agreements were not related except as licensor and licensee. There was no common enterprise. The [1148] licensees were not exclusive licensees.

The purpose of the restriction as held by the Court was to suppress competition by unpatented spring washers, which the Court found to be available. There was an illegal plan committing all of the members of the industry except the defendant to a common restraint. This was done with the avowed objection of restraining trade and was held to be a misuse of the patent.[1]

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[1]We have examined the record and briefs in the Circuit Court of Appeals for the Third Circuit in that case. While the facts do not appear fully from the decision of the Circuit Court of Appeals for the Third Circuit, we quote the following from the brief for defendant-appellant before the Court of Appeals in that case:

"The Loutrel lock-washer which is the subject matter of the patent-in-suit has no superior competitive standing in relation to the other unpatented non-tangling lock-washers, and there was no such advantage flowing from or attributable to the Loutrel-patented feature which would sustain any proper royalty on its own merits. Recognizing this situation, plaintiff decided to realize on its patent by utilizing it to control the lock-washer industry both as to the type of washers to be made and the price at which they were to be sold. Licenses (147a-158a) were devised which contained covenants to exclude and suppress all unpatented, non-tangling lock-washers lacking the Loutrel-patented feature and also to fix the price of the Loutrel lock-washer itself. The license covenants are quoted below. There was in effect created a trade 'Association' under the guise of a patent-license, which was bound together by the licensing agreements and the common purpose of controlling and suppressing unpatented, non-tangling lock-washers and maintaining fixed prices and stifling free competition. This informal trade 'Association', comprising plaintiff and its licensees, comprehends virtually 100%

(b) At pages 20 to 23 of our brief before the Supreme Court we presented our argument that the grant of the license to manufacture and use but not to sell was not illegal. This is elementary patent law. Robinson on Patents, Vol. 2, Sec. 810. The patent in suit covers a fishing tool. It is not the custom in the oil industry to buy or sell fishing tools. In the ordinary drilling of a well, if everything goes as planned, there would be no need for such a tool at all; only in the case of a misfortune

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(59a) of all lack-washer manufacturers selling to the General Motors Corporation, excepting the defendant here and perhaps one other company supplying a very small part of that company's requirements, and the testimony on the original trial shows that not only did plaintiff and its licensees have a virtually 100% monopoly of split-ring lock-washers used by General Motors Corporation (which plaintiff and its licensees sold under the term 'Kantlink') but, at the time of the trial also 'The Ford Motor Car Company, the entire Chrysler interests, Packard, Reo; in fact, the entire motor car industry is using the Kantlink lock-washers and such large concerns as the Eureka Manufacturing Company and the Apex Electrical Company' were 'using the Kantlink construction exclusively' (53b) (with the exception of course of the non-tangling split ring lock-washer sold to the motor car industry by defendant). The use of these Loutrel-licensed lock-washers 'in the case of the lesser users was 100 per cent.' (52b).

"Since the unpatented, non-tangling lock-washers and the patented Loutrel lock-washers were commercially indistinguishable, it was a very clever plan to eliminate all other non-tangling lock-washers (which could not be subject to a price-control) and substitute therefor only the lock-washer which could be subject to a price control by means of the Loutrel patent."

is there a call for one. As a practical matter, as is well known, fishing tools are handled by service organizations who maintain a stock of fishing tools and a staff of experienced operators. In providing for appellee Baash-Ross Tool Company to so conduct the business, the license agreement best served the industry and in no manner injured or restrained the public. In fact the license agreement required the licensee to "manufacture and use the required number of devices necessary to take care of the demand for said devices amongst the operators in the oil fields of the United States of America" (R. III-858). The rule governing contracts in restraint of trade is not so strict as to interfere with ordinary business transactions which are unobjectionable and necessary.

(c) At pages 23 to 26 of our brief before the Supreme Court we set forth our argument that the setting of the price to be charged for running the Reilly and Stone tool was not illegal. The right of the patentee to fix the price of his licensee is established by the decision of the Supreme Court in United States v. General Electric Co., 272 US 476, 71 L ed 362. The parties to the license agreement in this case were not competitors. The licensor was purely a holding company organized to embrace the rights of the owners of both the prior Kammerer patent and of the Reilly and Stone patent in suit. The licensor never engaged in any business. The returns from the business were to be divided [1150] equally between the parties to the license agreement. Under such circumstances there is no reason

why either of the parties should have more or less to say as to what the prices charged should be than the other.

At pages 26 to 29 of our brief before the Supreme Court we presented our argument that there is nothing in the license agreement attempting to extend the scope of the patent monopoly or to bring this case within the decisions relied upon by appellant. The decisions of this Court cited by appellant that suit may not be maintained for infringement of a patent that has been misused or that has been used contrary to the public interest are not applicable here. Appellees have not misused the patent in suit to obtain a monpoly of any unpatented articles or materials and have not used the patent contrary to the public interest. Even if a covenant in the license agreement could be deemed to be in restraint of trade, which we submit is not true, the mere fact that the appellees may have engaged in restraint of trade is no defense to an action brought to enforce statutory or property rights. See the cases cited at page 29 of our brief before the Supreme Court and the recent decision of the Supreme Court in Hartford Empire Co. v. United States, decided January 8, 1945.

CONCLUSION

We submit that appellant's motion for a modification of this Court's decree and permission to apply to the District Court for such modification should be denied.

Respectfully submitted,
/s/ FREDERICK S. LYON,
/s/ LEONARD S. LYON,
Attorneys for Appellees.

[Endorsed]: Filed March 8, 1946. [1151]

[Title of Circuit Court of Appeals and Cause.]

APPELLANT'S REPLY TO APPELLEES' MEMORANDUM

I.

The Defense Upon Which Appellent Relies Has Not Been Waived

The per curiam order of the Supreme Court dismissing the writ has been misinterpreted by appellees. In effect, the order is a direction to appellant to return to the courts below and there raise the issue of patent misuse.

Amendments to conform to the evidence are liberally allowed under the Federal Rules of Civil Procedure. Under Rule 15(b) an issue may be raised "upon motion of any party at any time, even after judgment." But here no further amend-

ment is necessary, for the [1152] defense of "unclean hands" which is the basis of patent misuse, is in the record and fully supported by the evidence. That defense, however, has not specially been "passed on below." Hence this motion which directly tenders the issue.

Appellees have not been prejudiced by any alleged delay, since the patent has expired and only an accounting remains. Appellant is not here questioning this Court's conclusion of validity and infringement which have become final. Because of patent misuse the accounting should be stayed and the complaint dismissed as in the National Lockwasher case. This is an issue not previously before this Court and is one which has never been waived. Indeed, the misuse of a patent, involving the public interest, cannot be waived and a court may sua sponte raise that question at any time.

In the very recent patent case of Frank Adam Electric Co. vs. Westinghouse Electric & Mfg. Co. ..... F. (2d) ....., 64 U.S.P.Q. 147, decided Jan. 11, 1945, the Circuit Court of Appeals for the Eighth Circuit in considering the "unclean hands" defense, said:

"If a question is fundamental and determinative of a case a court will pass upon it, although not raised by the parties."

American Cutting Alloys vs. General Electric Co., 135 F. (2d) 502, (C.C.A. 2), also related to a patent, and the illegality of a covenant, the Court holding that:

"This issue was not presented below but that does not prevent its consideration on appeal since the facts which raise it are in the record. Although illegality is an affirmative defense, a plaintiff is not required to file a reply asserting illegality of an agreement pleaded in defense to the complaint."

In Research Products Co. vs. Tretblite Co., 106 F. (2d) 530, (C.A.A. 9), relied on by appellees, this court did not hold that the [1153] defense of patent misuse had been waived. On the contrary, the record was examined and this court basing its decision on the merits, said:

"We agree that the record does not show the essential facts necessary to the application of the rule preventing recovery for infringement because of an illegal use of the patent monopoly to create another distinct monopoly in an unpatented material."

The recent decision in Flexwood Co. vs. Fausser & Co., 145 F. (2d) 528, (C.C.A. 7), cited by appellees, fails to support their argument. In that case Judge Barnes mentions Container Patents Corporation vs. Stant, 143 F. (2d) 172, also cited by appellees, and decides the issue of patent misuse and unclean hands on the record before the court, saying:

"The alternative is to decide the question presented by defendant's motion in the record already made. This, we shall do, and, in so doing, we are not unmindful of the interest of the public in questions relating to the validity, infringement and lawful use of patents." (underlining ours).

That the judgment entered by the District Court herein is only interlocutory is apparent from the Supreme Court decision in Simmons Co. vs. Brier Bros. Co. 258 U. S. 82, relating to patent infringement. Such a decree, said the court, may be modified in view of a later court decision at any time, prior to the final decree.

II.

Reply to Appellees' Argument on the Merits

Appellees' argument to this Court on the merits is a duplicate of that advanced in the Supreme Court. In lieu of replying [1154] in detail herein, we are filing copies of our reply brief in the Supreme Court, which fully answers the assertion of "joint venture" and other falacious contentions made by appellees.

Respectfully submitted,

/s/ R. WELTON, WHANN,

/s/ A. W. BOYKEN,

/s/ ROBERT M. McMANIGAL,

Attorneys for Appellant.

United States Circuit Court of Appeals
for the Ninth Circuit

Excerpt from Proceedings of Tuesday, March 13, 1945.

Before: Denman, Mathews and Stephens, Circuit Judges.

[Title of Cause.]

ORDER SUBMITTING MOTION FOR MODIFICATION OF APPELLATE DECREE AND/OR FOR PERMISSION TO APPLY TO THE DISTRICT COURT

Ordered motion of appellant for modification of the decree of this Court and/or for permission to apply to the District Court presented by Mr. A. W. Boyken, counsel for appellant, and by Mr. Leonard Lyon, counsel for appellees, and submitted to the court for consideration and decision. [1156]

[Title of Circuit Court of Appeals and Cause.]

Upon Motion for Modification of Appellate Court Decree and/or for Permission to Apply to the District Court

Before: Denman, Mathews and Stephens, Circuit Judges.

OPINION

Per Curiam:

On this appeal we affirmed the judgments of the district court holding that patent No. 1,625,391,

owned by appellee Kammerer Corporation and of which appellee Baash-Ross Tool Company was sole licensee, had been infringed by appellant and awarding injunctions and ordering accountings of and payment by appellant to appellees of profits and damages with costs of suit.

Certiorari was sought from the Supreme Court on the ground that the patent was invalid and if valid not infringed, and on the further ground that the license agreement between the appellees was against the public interest and hence that all equitable relief should be denied appellees. Certiorari was denied, 322 U.S. 739. Later, upon a motion for rehearing, the writ was granted, 322 U.S. 766. On January 2, 1945, the Supreme Court dismissed the writ and remanded the case to this court, ... U.S. ..., 65 Sup. Ct. 297. In the interim the patent had expired.

In this court the appellant, admitting the finality of our judgment that the patent is valid and infringed by him, repeats his claim that the license agreement of appellees violates the public [1157] interest. He moved that the ordered accountings, damages and costs be denied appellees by this court; or, in the alternative, that permission be granted him to move in the district court below that such relief be denied appellees. The motion was argued on behalf of all the parties and submitted.

Without passing upon the merits of appellant's contention respecting the effect on the public interest of appellees' license agreement, and without altering our judgment affirming the judgments of the

district court as to the validity of the patent and its infringement it is ordered that the judgment of this court be otherwise amended to provide that the cause be remanded to the district court and that that court may entertain a motion or motions based upon such contention to modify or set aside its order or orders for such damages and accountings thereof, and take such action thereon as it may determine.

[Endorsed]: Opinion upon motion for modification of Appellant Court decree, etc.. Filed March 14, 1945. Paul P. O'Brien, Clerk. [1158].

United States Circuit Court of Appeals
for the Ninth Circuit

Excerpt from Proceedings of Wednesday, March 14, 1945

Before: Denman, Mathews and Stephens, Circuit Judges.

[Title of Cause.]

ORDER DIRECTING AMENDMENT OF DECREE OF THIS COURT

Pursuant to the Per Curiam order this day rendered and filed, It Is Ordered that the judgment of this Court, without altering its affirmative of the judgments of the District Court herein as to the validity of the patent and its infringement, be otherwise amended to provide that the cause be remandded to the District Court here and that

that court may entertain a motion or motions based upon the contention of the appellant that the license agreement between the appellees was against the public interest and hence that all equitable relief should be denied appellees to modify or set aside its order or orders for such damages and accountings thereof, and take such action thereon as it may determine. [1159]

United States Circuit Court of Appeals
for the Ninth Circuit

No. 9957

IRA J. McCULLOCH,

Appellant,

vs.

KAMMERER CORPORATION, et al.,

Appellee.

DECREE

Appeal from the District Court of the United States for the Southern District of California, Central Division. This Cause came on to be heard on the Transcript of Record from the District Court of the United States for the Southern District of California, Central Division, and was duly submitted:

On Consideration Whereof, it is now here ordered, adjudged, and decreed by this Court, that the judgments of the said District Court in this cause be,

and hereby are affirmed with costs in favor of the appellees and against the appellant. It Is Further Ordered, Adjudged, and Decreed by this Court, that the appellees recover against the appellant for their costs herein expended, and have execution therefor. It Is Further Ordered, Adjudged and Decreed by this Court that this cause be, and hereby is remanded to the said District Court, and that the said District Court may entertain a motion or motions, based upon the contention of the appellant that the license agreement of appellees violates the public interest, to modify or set aside its order or orders for such damages and accountings thereof, and take such action thereon as it may determine.

[Endorsed]: Filed and entered October 18, 1943. As Amended by order of March 14, 1945. Paul P. O'Brien, Clerk. [1160]

[Title of Circuit Court of Appeals and Cause.]

NOTICE OF HEARING OF MOTION

To Kammerer Corporation and Baash-Ross Tool Company, Appellees, and Lyon & Lyon, their Attorneys;

Please take notice that on Monday, June 3, 1946, at the hour of 10 a.m., or as soon thereafter as counsel may be heard, in the Post Office Building, 7th and Mission Streets, San Francisco, California, before the above entitled Court, appellant will bring on for hearing his hereto annexed Motion to Modify or Set Aside Decree, of this Court filed and entered

October 18, 1943, as amended by order of March 14, 1945, recall the Mandate issued to the District Court pursuant thereto, and Determine Patent Misuse.

R. WELTON WHANN,
A. W. BOYKEN,
ROBERT M. McMANIGAL,
Attorneys for Appellant.

Dated May 24, 1946.

[Endorsed]: Filed May 24, 1946. [1161]

[Title of Circuit Court of Appeals and Cause.]

MOTION TO MODIFY OR SET ASIDE DECREE, RECALL MANDATE AND DETERMINE PATENT MISUSE

Now comes appellant and moves this Court to modify or set aside its Decree filed and entered October 18, 1943 as amended by order of March 14, 1945, wherein the judgments of the District Court for the Southern District of California, Central Division were affirmed, recall the mandate issued to the District Court pursuant thereto, decide the question of patent misuse set forth in Appeal No. 11,122, and for such other relief as to this Court shall seem proper.

The grounds of this motion are that this Court, in its opinion filed March 14, 1945, intended to affirm the District Court only as to patent validity and infringement leaving open the question of patent misuse and right to accounting which question this Court intended that the District Court should

initially determine, meanwhile keeping the appeal open so this [1162] Court might review the decision of the District Court in that respect, and finally enter its decree on all defenses.

On the hearing appellant will rely on all the pleadings and papers on file in this Appeal and in Appeal No. 11,122 and the authorities hereto annexed.

R. WELTON WHANN,
A. W. BOYKEN,
ROBERT W. McMANIGAL,
Attorneys for Appellant.

Dated May 24, 1946. [1163]

POINTS AND AUTHORITIES IN SUPPORT OF MOTION

I.

The procedure which this Court apparently intended to follow as manifested in its opinion of March 14, 1945 (148 F. (2d) 525) was to hold the appeal open until the question of patent misuse could first be determined by the District Court. This procedure is similar to that followed by this Court in Time Trust Inc. vs. Securities & Exchange Commission, 130 F. (2d) 214 (CCA 9th) where this Court, without entering its decree, remanded the suit to the District Court to make additional findings of fact stating that the responsibility for decision on the facts lies with the trial court. In Time Trust Inc. vs. Securities & Exchange Commission, 142 F. (2d) 744, a later opinion of this

Court in the same case, the trial court's additional findings of fact were considered by this Court and a Decree finally entered.

II.

An inspection of the Decree of this Court dated October 18, 1943, as amended by order of March 14, 1945, indicates that the Decree, with exception of the last paragraph, was prepared by the Clerk of this Court on October 18, 1943, after the first opinion of this Court was filed (138 F. (2d) 482). Since the mandate was then stayed pending petition to the Supreme Court for a writ of certiorari, the Decree remained in the Clerk's office. After the second opinion of this Court (148 F. (2d) 525) on patent misuse, the Decree was probably amended on or about March 14, 1945, by adding the final paragraph remanding the cause to the District Court with permission to appellant to make a motion in the District Court on patent misuse.

In amending the Decree without altering the previously prepared portions, the Clerk did not reflect the intentions of this Court to hold the appeal open until the question of patent misuse had been initially determined in the lower court. Nor did [1164] it reflects the intention of this Court to merely affirm the lower court judgments in respect to validity and infringement only, but not the right to an accounting of profits and damages.

This error can and should be corrected and the proceedings conformed to this Court's intentions as indicated in its opinion on patent misuse (148 F. (2d) 525).

The failure of the Clerk to clearly set forth this Court's intentions is a clerical error which may be corrected at any time.

Zoline Federal Appellant Jurisdiction, Page 434; Hickman vs. Fort Scott, 141 U. S. 415; Gilmore vs. U. S., 131 F. (2d) 873; Reed vs. Howberg, 77 F. (2d) 227; New England Furniture and Carpet Company vs. Willcuts, 55 F. (2d) 983; United Zinc and Chemical Company v. Britt, 264 Fed. 785; Rule 65 Federal Rules of Civil Procedure.

In Gilmore vs. U. S., 131 F. (2d) 873, the Circuit Court of Appeals for the Eighth Circuit said as follows:

"In the case of courts of common law . . . the court at a subsequent term has power to correct inaccuracies in mere matters of form, or clerical errors, and, in civil cases, to rectify such mistakes of fact as were reviewable on writs of error coram nobis, or coram vobis, for which the proceeding by motion is the modern substitute. United States v. Mayer, 235 U. S. 55, 66, 67, 35 S. Ct. 16, 19, 59 L. Ed. 129. The rule that a judgment in a civil case cannot be vacated or modified after the term at which it was entered, has been changed by Federal Rules of Civil Procedure, rule 6(c), 28 U. S. C. A. following section 723c. Sprague v. Ticonic National Bank, 307 U. S. 161, 169, 170, 59 S. Ct. 777, 83 L. Ed. 1184."

In E. C. Shevlin Co. vs. United States, 146 F. (2d) 613, 615, this Court recently recognized the

power to correct errors by motion It was there stated:

"Appellee at the hearing of the appeal from the order setting aside the first judgment sought to explain this ex parte action of the court on the ground that there was a suspicion in the court's mind, undisclosed in the record, of fraud on the part of the successful litigant. If this penetration into the judicial mind be [1165] warranted, and its conclusions be correct, then the remedy after the term is in a motion or proceeding in the nature of coram nobis, (Pickett's Heirs vs. Legerwood, 7 Pet. 144, 147, 8 L. Ed. 638; United States v. Mayer, 235 U. S. 55, 69, 35 S. Ct. 16, 59 L. Ed. 129), or in a suit in equity to restrain the enforcement of the judgment or for return of moneys paid under it."

III.

Because of the public interest which is present in all patent litigation (authorities in our opening brief pgs. 29-34 in Appeal No. 11,122.), and in the interest of justice this Court should now consider the defense of patent misuse and review the opinion, findings of fact and conclusions of law of the District Court on patent misuse, which are clearly erroneous and not in accordance with the opinions of the Supreme Court of the United States (our opening brief pgs. 22-29 in Appeal No. 11,122), other Circuit Courts of Appeals (Pgs. 28-29, 39) and the recent opinion of this Court in Vitamin Technologists, Inc. vs. Wisconsin Alumni Research Foundation, 146 F. (2d) 941.

IV.

An accounting before a Master in a patent infringement suit is expensive and prolonged. If this Court does not now decide the question of patent misuse, years may pass before another appeal can be taken from the Final Judgment entered by the District Court (Bingham Pump Co. vs. Edwards, 118 F. (2d) 338). As expressed at the hearing in this Court on May 17, 1946 in Appeal No. 11,122, all parties to this litigation are desirous of settling the question of patent misuse now. It is inconceivable that this litigation should become so ensnarled in a procedural problem that this Court cannot determine the question of patent misuse involving the public interest at the present time. In Bruckman vs. Hollzer, 152 F. (2d) 730, 733 (CCA 9th), Judge Denman writing the opinion of this Court said: [1166]

"We are not in accord with the extreme judicial conservatism which instinctively clings to outmoded intricate processes and would seek to nullify or minimize every attempt for their simplification."

The above quotation applies with equal force to the situation here.

Respectfully submitted,

R. WELTON WHANN,
A. W. BOYKEN,
ROBERT M. McMANIGAL,
Attorneys for Appellant.

Dated: May 24, 1946.

[Endorsed]: Filed May 24, 1946. [1167]

TELEGRAM

FA148 LG PD-WUX Duncan Okla 31 1235P
Paul O'Brien, Clerk U S Circuit Court of Appeals
Federal Courthouse and Post Office Bldg.
7th and Mission

Re: McCullough v. Kammerer Corp., No: 9957. Impossible for me to reach San Francisco in time for hearing next Monday of Appellant's Motion to Modify or Set Aside Decree, Recall Mandate and Determine Patent Patent Misuse. However, I do not wish to delay determination of motion if satisfactory to Court am willing and agree to submission of motion without oral argument. Will you please advise Court that my position on motion is that if the Court intended by its original order to reserve jurisdiction on former appeal to review District Court decision on alleged patent misuse defense then Appellee has no objection to court so holding. However, in absence of any indiction in original order to that effect, I am of the opinion that Court has now no power to entertain motion to recall mandate. See Waskey v. Hammer, 179 F. 273, Niocene Ditch Co. v. Campion Mining and Trading Co. 197 F. 497, and National Phonograph Co. v. Kellogg, 96 F. (2d) 873 or power now to amend mandate. See American Safety Razor Corp. v. International Safety Razor Corp., 61 F. (2d) 479, Casey v. Sterling Cider Co. 15 F. (2d) 52, Hart v. Wiltsee, 25 F. (2d) 863. Will you please read this telegram over telephone to Mr. Boyken.

LEONARD S. LYON. [1168]

United States Circuit Court of Appeals for the Ninth Circuit.

Excerpt from Proceedings of Monday, June 3, 1946.

Before: Denman, Mathews and Orr, Circuit Judges.

[Title of Cause.]

ORDER ON MOTION TO RECALL MANDATE, ETC.

Ordered motion of appellant to recall mandate and modify or set aside decree presented by Mr. A. W. Boyken, counsel for appellant in support of said motion, and submitted on behalf of appellees in opposition to such motion heretofore filed, and submitted to the court for consideration and decision. [1169]

[Title of Circuit Court of Appeals and Cause.]

APPELLANT'S REPLY MEMORANDUM

This is in reply to Mr. Leonard Lyon's wire and citation of cases.

The general rule, as correctly stated in the wire, was that the mandate of the Circuit Court of Appeals cannot be recalled after the end of the term (cases cited in Mr. Lyon's wire). The reason for the rule seems to be that the power of a court over its judgment must end some time.

But the general rule is subject to exceptions.

1. It applies only to final and not to interlocutory decrees.

John. Simmons Co. v. Grier Bros., 258 U. S. 82, 90; 42 S. Ct. 196, 199:

"Regarding, therefore, the decree of January 5, 1916, as an interlocutory, not a final one, there is neither technical nor substantial ground for applying to it the rules pertaining to a bill of review, and the bill herein called such is to be treated as essentially a petition for rehearing . . . and, of course, if an interlocutory decree be involved, a rehearing may be sought at any time before final decree, providing due diligence be employed and a revision be otherwise consonant with equity."

2. Rule 6(c) of the New Federal Rules abolishes the effect of the expiration of the term. [1170]

These new rules regulate federal appellate procedure. Although Nachod v. Engineering & Research Corp., 108 F. (2d) 594, holds that Rule 6(c) is inapplicable to the Circuit Court of Appeals, no authorities are cited and no reasons given. If the New Federal Rules regulate the manner in which a case may be taken up to the appellate court, they apply equally to the same case when it comes down from the reviewing court.

3. Clerical errors may be corrected at any time, even in final decrees and after the expiration of the term.

Cases cited in our Points and Authorities attached to motion.

Also Hart v. Wiltsee, 25 F. (2d) 863 cited by Mr. Lyon.

4. When both parties unite at a subsequent term in asking for a modification of the appellate court's mandate, to make it conform to a later opinion, the application should be granted.

Utah Power & Light v. United States, 242 Fed. 924, 925.

5. A Circuit Court of Appeals may modify even a final decree after expiration of the term because of "changed conditions and circumstances arising subsequent to its entry."

Stewart Die Casting Corp. v. National Labor Relations Board, 129 F. (2d) 481, 483.

National Popsickle v. Hughes, 32 F. Supp. 397, 399.

The present case comes within the exceptions to the general rule, and this Court may modify and correct its decree and mandate, so as to conform to the Court's opinion in 148 F. (2d) 525, notwithstanding the expiration of the term.

Respectfully submitted,
/s/ R. WELTON WHANN,
/s/ A. W. BOYKEN,
/s/ ROBERT M. McMANIGAL,
Attorneys for Appellant.

Dated: June 4, 1946.

[Endorsed]: Filed June 4, 1946. [1171]

United States Circuit Court of Appeals for the Ninth Circuit.

Excerpt from Proceedings of Tuesday, September 24, 1946.

Before: Denman, Mathews and Orr, Circuit Judges.

[Title of Cause.]

ORDER DENYING APPELLANT'S MOTION TO MODIFY OR SET ASIDE DECREE, ETC.

Upon consideration of the motion of appellant, filed May 24, 1946, to modify or set aside decree of this court, and of the reply of appellees thereto, filed June 3, 1946, and the oral argument of appellant in support of such motion on its submission on June 3, 1946, and good cause therefor appearing, It Is Ordered—Denman, Circuit Judge, dissenting—that said motion to modify or set aside the decree of this court be, and hereby is denied.

[1172]

[Title of Circuit Court of Appeal and Cause.]

CERTIFICATE OF CLERK, U. S. CIRCUIT OF APPEALS FOR THE NINTH CIRCUIT, TO RECORD CERTIFIED UNDER RULE 38 OF THE REVISED RULES OF THE SUPREME COURT OF THE UNITED STATES.

I, Paul P. O'Brien, as clerk of the United States Circuit Court of Appeals for the Ninth Circuit, do hereby certify the foregoing five volumes, consisting of one thousand one hundred seventy-two (1172) pages, numbered from and including 1 to and including 1172, to be a full, true and correct copy of the entire record of the above-entitled case in the said Circuit Court of Appeals, made pursuant to request of counsel for the appellant, and certified under Rule 38 of the Revised Rules of the Supreme Court of the United States, as the originals thereof remain on file and appear of record in my office.

Attest my hand and the seal of the said the United States Circuit Court of Appeals, for the Ninth Circuit, at the City of San Francisco, in the State of California, this 22nd day of November, 1946.

[Seal] /s/ PAUL P. O'BRIEN,
Clerk. [1173]

[fol. 1182] In the Supreme Court of the United States,
October Term, 1946

No. 755

Ida J. McCullough, Petitioner,

vs.

Kammerer Corporation, a Corporation, and Baash Ross Tool Company, a Corporation, Respondents

Stipulation Re Printing of Record

It is hereby stipulated by and between the parties by their respective counsel that, petitioner having filed eleven (11) copies of each of Volume Numbers I, II and VII and two (2) copies of each of Volume Numbers III, IV, V and VI of the printed record in the subject cause, additional copies of the record need not be printed or filed.

R. Welton Whaun, A. W. Boyken, Robert W. McMunigal, Counsel for Petitioner. Frederick S. Lyon, Leonard S. Lyon, Counsel for Respondent.

Dated: December 16, 1946.

[fol. 1183] Supreme Court of the United States, October Term, 1946

No. 755

Order Allowing Certiorari—Filed February 3, 1947

The petition herein for a writ of certiorari to the United States Circuit Court of Appeals for the Ninth Circuit is granted, limited to the first question presented by the petition for the writ. The case is transferred to the summary docket.

And it is further ordered that the duly certified copy of the transcript of the proceedings below which accompanied the petition shall be treated as though filed in response to such writ.